Cancorp

CANADA NORTHWEST LAND LIMITED

1973 ANNUAL REPORT

DIRECTORS:

H. G. Gammell
Calgary, Alberta
S. L. Christensen
New York City, U.S.A.
N. E. Goodman
Toronto, Ontario
D. W. Hilland
Calgary, Alberta
E. A. Jonas
New York City, U.S.A.
J. Poscente
London, England
M. S. Reford
Aylmer East, P.Q.
Rt. Hon. Lord Shaughnessy
Calgary, Alberta
R. T. Ruggles
Montreal, P.Q.
M. M. Sinclair
Toronto, Ontario

A GROUP OF THE BOARD,
From left to right, E. A. Jonas, D. W. Hilland, H. G. Gammell, Lord Shaughnessy, N. E. Goodman, S. L. Christensen.

OFFICERS:

H. G. Gammell, President
J. Poscente, Vice President
Rt. Hon. Lord Shaughnessy,
Vice President and Secretary
D. W. Hilland, Assistant Secretary
M. J. Khan, Comptroller

BANKERS:

Royal Bank of Canada
Canadian Imperial Bank of Commerce

TRANSFER AGENTS:

Canada Permanent Trust Company

AUDITORS:

Clarkson, Gordon & Co.

STOCK LISTINGS:

Toronto Stock Exchange
Vancouver Stock Exchange

SUBSIDIARIES:

CNW Oil Limited
Canada Northwest Oil (U.K.) Limited
Canada Northwest Oils, Inc.
Thor Exploration Company Ltd.
Red Deer Minerals Ltd.
Pawnee Petroleums Ltd.

HEAD OFFICE:

920 Three Calgary Place,
355 4th Avenue, S.W.,
Calgary, Alberta, T2P 0J1

CANADA NORTHWEST LAND LIMITED

HIGHLIGHTS OF ACTIVITIES

	1973	1972
PRODUCTION		
Net oil (in barrels)	191,426	197,098
Net gas (in Mcf.)	614,000	284,806
RESERVES		
Oil (in barrels)	2,805,600	2,808,000
Gas (in MMcf.)	147,671	141,031
LAND HOLDINGS (excluding carried interests) (in acres)		
Freehold titles	277,285	277,285
P & N G leases and permits	832,243	1,109,026
Mineral claims and permits	6,600	11,200
FINANCIAL		
Gross Revenue	$ 700,980	$ 577,348
Cash Flow	$ 220,644	$ 193,706
Per share	5.3¢	4.9¢
Shares outstanding	4,191,119	3,961,022
Working Capital	$ 581,627	$ 425,715

TO OUR SHAREHOLDERS

The year just past, 1973, will surely go down as one of the most chaotic in the history of the oil industry. However, from our Company's point of view, it has been a year of great progress, both in North America and abroad. Concrete steps were taken to put some of our shut-in gas on stream and exploration news in Europe and the Arctic, where we have interests, continued to be very encouraging. Our financial position improved and we can look forward to further improvement as more of our gas goes on stream and as gas and oil prices continue their rise.

The causes of the reputed "energy crisis" in late 1973 need no discussion here. Obviously a realignment of world power has taken place with the concentration of financial and energy control which now resides in the Middle East countries. Consuming nations will be stimulated to use energy more efficiently and will make every effort to reduce dependence on foreign sources as a short term result of the "energy crisis". This is good from a conservation point of view and may provide opportunities for explorers. However, the longer term consequences of the Middle East countries' new position of strength is not at all clear and hinges on how they use their power. In Canada, our Federal and Provincial governments reacted to the "energy crisis" by resorting to a variety of confiscatory measures which, if perpetuated, can only result in the discouragement of exploratory activity in Canada by companies such as ours. All this is being done in the name of "constitutional responsibility" and "consumer protection". Aside from the questionable morality of such self-seeking postures by elected politicians in a society supposedly based on principles of free enterprise and democracy, the fact is that these activities can only hurt the Canadian public in the long run. Our governments look ridiculous and vacillating. Confidence in Canada as a good place to do business is seriously weakened. If investors lack confidence, explorers here will find it very difficult to finance the replacement of reserves and Canadians will eventually go short.

Probably the Federal government, by imposing restrictions and extra taxes on crude export and by freezing domestic crude prices, did the most damage. At one stroke they managed to antagonize our largest trading partner, diverted funds desperately needed for exploration and threatened Provincial control over natural resources. However, the Provincial governments further damaged their oil industry by expropriating production, imposing duplicate taxes and controls and abrogating long standing royalty agreements. Even the new royalty structures were themselves soon replaced with completely open ended systems. Provincial governments offered some mitigation in the form of credits against royalties, taxes and rentals for exploration drilling but their recent record of agreement-breaking may weigh more heavily with explorers than their hastily conceived incentive schemes.

It is a tragic situation which has already resulted in a flight of exploration capital to other places where the opportunities are equal, prices better and political climate more stable.

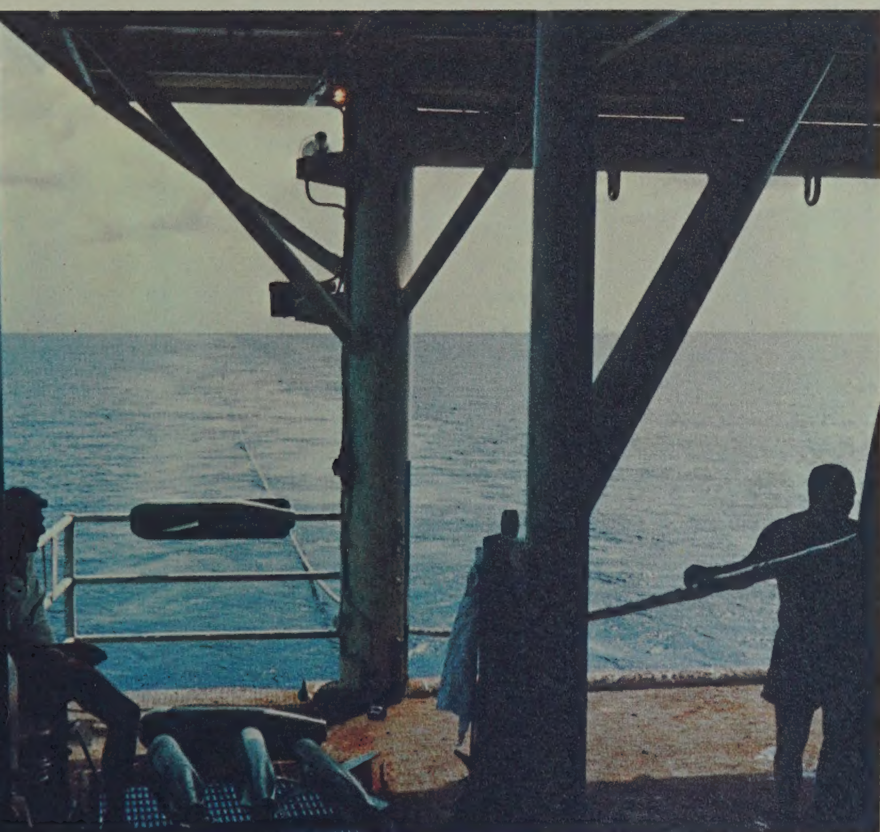
Our Company has followed a policy over the last few years of gradually building up a diversified exploration exposure consisting of short-term programs in the Canadian Prairie Provinces and northern United States, and the longer range frontier area programs in the Canadian Arctic Islands, the North Sea and the Mediterranean. The present climate in Canada suggests that we should reduce Canadian ~~activities and concentrate~~ more on expansion ~~of our foreign operations~~.

United Kingdom, North Sea — Block 3/7

The pace of exploration and discovery in the North Sea, north of the 59th degree of latitude, continued unabated during 1973. At the start of the year, the Frigg gas field had been discovered on the Norwegian side of the border and in U.K. waters, the Thistle, Cormorant and Brent oil discoveries had been made. Drilling during the year uncovered nine new shows and some extensions to the 1973 discoveries. Of the 36 holes drilled to date in U.K. waters north of 59º, five are dry, five are still drilling without firm indications and 26 are oil wells. An extraordinary record. The Company's 20% interest in Block 3/7, acquired in 1971, assumes greater importance with every hole drilled in the area. Geophysical surveys indicate that the block covers portions of two structures, one of which is now known to contain the Ninian oil field with two oil wells in it. These wells lie within 3 miles of the edge of the block and further development of the field is expected to take place in 1974.

Structures in this part of the North Sea are apparently cut by complex fault patterns and have major pinchouts against them. Each structure could contain several separate, different kinds of pools, both structural and stratigraphic, each of which will have to be tested by the drill. Our Company, the operator of the Block 3/7 group, is planning additional detailed seismic surveys in 1974. We also plan to drill two holes — one on each structure covered by the block. The current shortage of rigs makes it difficult to state exactly when these will be drilled but it is hoped to do so before the end of 1975.

North Sea seismic vessel in action.



"Courtesy of G.S.I."

North Sea Petroleums Limited

Our Company organized North Sea Petroleums Limited, a British company, in 1973 to take over all of our European exploration programs with the exception of those pertaining to Block 3/7. This new corporate vehicle provides us with the financial ability to undertake much larger projects than we could do on our own. The shareholders, besides Canada Northwest Land Limited with 28%, are The Scottish American Investment Company Limited and The Scottish European Investment Company Limited, both of Edinburgh, Scotland and The Scottish Amicable Life Assurance Society of Glasgow, Scotland. Management will be supplied by our Company through an office established in London.

North Sea has a 50% interest in a group which was awarded five permits off the east coast of Spain, 35 miles east of the Amposta oil field. These permits total 168,370 acres. A geophysical program is

planned for the spring of 1974 over the permits.

By trades involving its interest in south Sicily offshore permits, awarded during 1973, North Sea acquired between 13% and 27½% interest in 202,908 acres of permits in the same area. Geophysical surveys will be conducted over the blocks in 1974. Other applications have been made in other Italian offshore areas.

During the year, North Sea applied for permits offshore Greece totalling 1.5 million acres. It is hoped that these awards will be made during 1974.

The farmees of the 3.6 million acre Tunisia permits drilled a dry hole in the Gulf of Tunis in 1973. The Gulf of Gabes permits (which adjoin recent discoveries) and the southern desert permits will have additional geophysical surveys on them in 1974 and possibly another hole.

North Sea participated in extensive geophysical surveys in offshore United Kingdom areas which may be offered in the sixth round of licence applications. Pressured by the current energy crisis, the U.K. government may announce the opening of new areas during 1974.

North Sea is participating in a Norwegian group making applications for some of the 36 Norwegian North Sea blocks offered on September 17, 1973. Following the initial application, our group has been involved in continuing discussions of programs with the government there. Awards are not expected until later in 1974 or in 1975.

Panarctic Oils Ltd.

Our Company's 4½% share interest in Panarctic acquired last year, has proven to be a very exciting window on Canadian Arctic Islands exploration. In this area, industry is making steady progress towards developing the threshold reserves necessary to justify a pipeline south. There is enough confidence that sufficient reserves exist in the basin that planning by the Polar Gas Project pipeline group is moving into high gear. This group now consists of several major companies representing all facets of the natural gas industry in North America.

In 1973 Arctic drilling continued throughout the whole year thus speeding up exploration considerably. Industry drilled some 23 holes during the year, of which three wells added substantially to reserves. Two of these, Hecla and Thor, were drilled by Panarctic. In 1974 Panarctic's exploration and development program will be similar in size to the 1973 program but will involve the drilling of more prospects developed by the company's own staff as the farmin earning program is now complete. These prospects, proposed for drilling over the next two years, are considered very potential. At the year end, eight holes were being drilled by Panarctic, of which Taleman and Bent Horn, encountered very encouraging, shows of oil. Another gas discovery was made on King Christian Island by another operator.

Panarctic is now entering the most interesting and critical period of Arctic Islands exploration. It has found good reserves and will be drilling its best prospects. Because of the encouraging results to date, it has been able to draw on a wide variety of financing sources. In 1974-75 it will manage a $55 million exploration program of which less than 50% could be contributed by Panarctic itself. Future gas purchasers and farmees will contribute exploration funds, and in addition, in 1974 the original farmors will be offered part of the shares to be sold to finance the 1974-75 program.

The world energy crisis which is ushering in a new era of higher energy prices is, as well, emphasizing the dangers to North Americans of becoming too reliant on foreign supplies. In this

context it should become increasingly obvious how essential Panarctic's projects are to long term North American energy security. The higher prices expected for gas and oil ensure the profitability of this venture and we are confident that it will be allowed to complete the very essential job it was set up to perform.

Our Company's President was appointed to the Board of Panarctic in December to represent Canada Northwest Land Limited's interests.

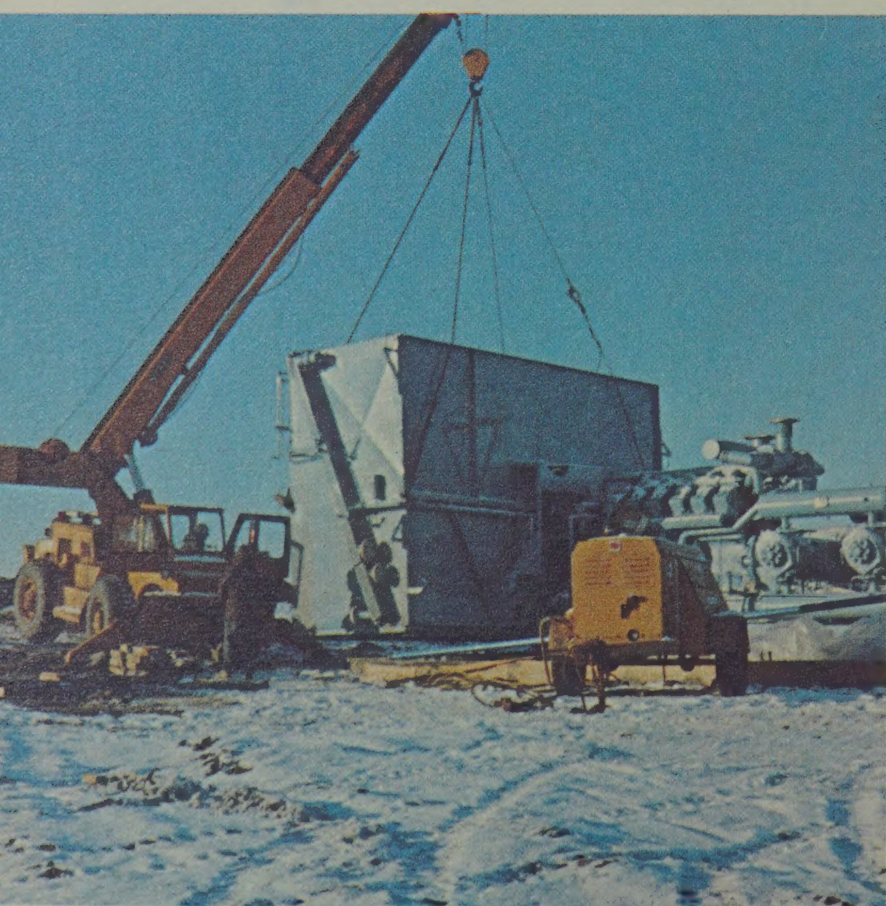
Drilling rig at Hecla in the Canadian Arctic.

"Courtesy of Panarctic Oils Ltd. Calgary, Canada."

United States

Our Company's exploratory exposure in the United States, where gas and oil prices are higher and governments less restrictive than in Canada, was being expanded at year end. Land acquisition programs were initiated in areas of geological potential in Montana, North Dakota and Kentucky. Approximately 20,000 acres have been acquired in these areas. In addition, a 10% interest was taken in a 500,000 acre geothermal land filing, spread through the states of California, Idaho, Nevada, Oregon and Washington. The commercial potential of electrical generation based on steam recovered from "hot spots" on the earth's crust has been amply demonstrated in northern Italy at Larderello and northern California at Geysers. The group will conduct detailed geological surveys in these areas.

Natural gas compression plant under construction at Hilda.



"Courtesy of Atlantic Richfield Canada Ltd."

Rio Alto Exploration Ltd.

Our Company acquired 21% of the shares of this mineral exploration company when it completed the acquisition of Red Deer Minerals Ltd. in 1973. Subsequently an additional 7% of the shares was acquired for cash to supply working capital. Rio Alto has established its own staff and is actively exploring for coal in western Alberta, uranium in northern Saskatchewan and base metals in British Columbia and Australia. It has a modest cash flow from oil properties and preproduction payments on some of its farmed out coal properties. Its shares trade on the Calgary Stock Exchange.

Gas Contracts

In 1972 all of our Company's gas reserves were placed under a conditional contract with Pan-Alberta Gas Ltd. In September, 1973 it became apparent that Pan-Alberta would not get a gas export

EXPLORATORY ACREAGE
PETROLEUM & NATURAL GAS WORKING INTERESTS

	1973 Gross	1973 Net	1972 Gross	1972 Net
Canada				
Alberta:				
Freehold titles	115,667	40,464	115,667	40,464
Leases, permits & licences	264,876	142,810	247,532	122,849
	380,543	183,274	363,199	163,313
Saskatchewan:				
Freehold titles	202,922	202,922	202,922	202,922
Leases	23,106	18,209	17,730	12,953
	226,028	221,131	220,652	215,875
Manitoba:				
Freehold titles	33,899	33,899	33,899	33,899
Leases			1,440	252
	33,899	33,899	35,339	34,151
Arctic Island permits	1,067,455	324,438	1,386,549	739,813
East Coast offshore permits	352,763	176,382	352,763	176,382
	1,420,208	500,820	1,739,312	916,195
U.S.A.				
Montana:				
Leases	14,519	3,342	30,694	11,510
Foreign				
United Kingdom:				
North Sea	50,025	10,005	50,025	10,005
Tunisia	3,526,172	35,262	3,526,172	35,262
Italy	202,807	37,610		
Spain	168,370	84,185		
	3,947,374	167,062	3,576,197	45,267
Total P. & N.G. Working Interests	6,022,571	1,109,528	5,965,393	1,386,311

PETROLEUM & NATURAL GAS CARRIED INTERESTS (GROSS ACRES)

	1973	1972
Canada		
Beaufort Sea	307,408	307,408
Ft. Norman and Beaver River, N.W.T.	148,019	148,019
Flemish Cap	43,462	43,462
Alberta	11,232	11,232
	510,121	510,121

MINERAL WORKING INTERESTS

	1973 Gross	1973 Net	1972 Gross	1972 Net
Alberta coal leases	13,200	6,600	13,200	11,220

CANADA NORTHWEST LAND LIMITED

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1973 AND 1972

ASSETS

	1973	1972
CURRENT:		
Cash and short term deposits	$ 1,103,468	$ 190,863
Marketable securities — at cost (Market value: 1973 — $160,000; 1972 — $82,200)	89,424	59,823
Accounts receivable	705,874	506,494
Drilling supplies — at cost	52,416	
	1,951,182	757,180
INVESTMENTS — at cost:		
Panarctic Oils Ltd.	15,176,007	14,275,380
North Sea Petroleums Limited, a corporate joint venture (Note 1)	99,275	
Red Deer Minerals Ltd. (Note 1)		324,000
	15,275,282	14,599,380
PROPERTY AND EQUIPMENT (Notes 1 and 2):		
Oil and gas properties — at cost less accumulated depletion (1973 — $796,462; 1972 — $587,005)	5,535,820	4,126,499
Production and other equipment — at cost less accumulated depreciation (1973 — $155,983; 1972 — $127,609)	663,342	319,811
	6,199,162	4,446,310
OTHER:		
Refundable deposits	68,717	85,176
Unamortized debt discount and financing costs (Note 3)	520,029	97,956
Due from employees under stock purchase plan (Note 4)	170,333	
	759,079	183,132
	$24,184,705	$19,986,002

LIABILITIES

	1973	1972
CURRENT:		
Accounts payable and accrued charges	$ 976,401	$ 178,311
Long term debt due within one year (Note 3)	393,154	153,154
	1,369,555	331,465
LONG TERM DEBT (Note 3)	6,810,267	4,997,260
SHAREHOLDERS' EQUITY:		
Capital (Note 4)		
Authorized: 3,000,000 2% non-cumulative redeemable, preferred shares of a par value of $1		
6,000,000 common shares of no par value		
Issued: 4,260,969 common shares, 1972 — 3,961,022 shares	15,640,948	13,838,000
Less 69,850 shares held by Red Deer Minerals Ltd.	422,593	
4,191,119	15,218,355	13,838,000
Retained earnings	786,528	819,277
	16,004,883	14,657,277
	$24,184,705	$19,986,002

On behalf of the Board:

H G Gummell Director.

[signature] Director.

See accompanying notes.

CANADA NORTHWEST LAND LIMITED

CONSOLIDATED STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 1973 AND 1972

	1973	1972
Revenue:		
Oil and gas sales and other operating revenues	$666,954	$567,074
Investment and sundry income	34,026	10,274
	700,980	577,348
Deduct:		
Operating expense	130,088	130,839
General and administrative expense	187,616	143,606
Interest	132,375	77,754
Mineral taxes	30,257	31,443
	480,336	383,642
Cash income from operations	220,644	193,706
Deduct:		
Depletion	116,680	147,122
Depreciation	24,756	18,916
Amortization of debt discount and financing costs (Note 3)	74,457	20,279
Deferred interest on Series B Debentures (Note 3)	37,500	37,500
	253,393	223,817
Net loss for the year (Note 5)	$ 32,749	$ 30,111
Net loss per share	(1¢)	(1¢)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 1973 AND 1972

	1973	1972
Balance at beginning of year	$819,277	$849,388
Net loss for the year	32,749	30,111
	$786,528	$819,277

See accompanying notes.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEARS ENDED DECEMBER 31, 1973 AND 1972

	1973	1972
Source of funds:		
Cash income from operations	$ 220,644	$ 193,706
Issue of common shares	2,097,274	12,089,950
Issue of long term debt		
5% - 7½% convertible debenture	4,500,000	
Bank loan	1,303,661	167,000
Notes payable		3,500,000
Sale of oil and gas properties	959,071	135,000
	9,080,650	16,085,656
Application of funds:		
Investment in shares of subsidiary company	1,182,200	14,390,000
Add working capital at date of acquisition	85,831	(105,079)
	1,268,031	14,284,921
Reduction of long term debt	4,028,154	649,834
Expenditures on property and equipment —		
Drilling and exploration	1,204,535	382,264
Acquisition costs and rentals	321,323	252,913
Production and other equipment	435,930	59,700
Investment in Panarctic Oils Ltd.	900,627	
Debt discount and financing costs	496,530	47,617
Employee Stock Purchase Plan	170,333	3,609
Investment in North Sea Petroleums Limited	99,275	
	8,924,738	15,680,858
Increase in working capital	$ 155,912	$ 404,798

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1973

1. Basis of consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries.

Prior to 1973, the Company owned 35% of the outstanding common shares of Red Deer Minerals Ltd. acquired at a cost of $324,000. On February 19, 1973, the Company acquired the remaining outstanding common shares of Red Deer Minerals Ltd. in exchange for 195,405 common shares of the Company at a stated value of $1,182,200.

This acquisition has been accounted for as a purchase and the cost of the investment therein which amounted to $1,506,200 has been reflected in the consolidated balance sheet as follows:

Oil and gas properties —		
Net book value in Red Deer Minerals Ltd.	$560,288	
Adjustment to bring properties to fair value	284,045	$ 844,333
Shares of Canada Northwest Land Limited —		
Cost to Red Deer Minerals Ltd.	279,766	
Adjustment to bring shares to fair value	437,159	716,925
Production and other equipment		24,177
Other assets		6,596
		1,592,031
Less working capital deficiency		(85,831)
		$1,506,200

At December 31, 1973 Red Deer Minerals Ltd. held 69,850 common shares of the Company which are deducted from the issued share capital on the consolidated balance sheet.

The Company has entered into a corporate joint venture, North Sea Petroleums Limited, which is engaged in the exploration for and development of petroleum resources in Europe. The properties held by the corporate joint venture are still in an exploratory stage and accordingly the Company's investment is carried at cost which represents its equity in the undeveloped properties.

2. Accounting practices

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit-of-production method based on estimated proven reserves of oil and gas. Depreciation of production equipment is provided on the composite unit-of-production basis.

3. Long term debt

The 7½% Convertible Debentures, Series B, are due February 23, 1985 and are convertible into common shares of the Company at $4.11 per share to February 23, 1977 and $7.87 per share to February 23, 1982 and are redeemable at the option of the Company at 105.5 commencing in 1975 and thereafter at prices varying to par in 1985. The Trust Indenture

contains restrictions concerning, among other things, the incurring of additional debt and the payment of dividends and also provides for annual sinking fund payments of $50,000 commencing in 1975. Under the terms of the Series B Debentures, the payment of interest thereon may be deferred until 1975.

The $4,500,000 5% - 7½% Convertible Debenture was issued in 1973 for a cash consideration of $4,050,000. The Debenture is due on September 15, 1993, is convertible into common shares at $9.50 per share to September 15, 1983 and is redeemable at the option of the Company after September 15, 1974 and prior to September 15, 1983 at par, and thereafter at prices varying from 107.5 to par in 1993. Interest on the Debenture becomes payable commencing September 15, 1975, at 5% per annum to September 14, 1983 and thereafter at 7½% per annum. The Debenture discount of $450,000 is being amortized over the two year interest free period. The Trust Indenture provides for annual sinking fund payments in the amount of $450,000 commencing September 15, 1983.

The Debentures are secured by floating charges on all of the Company's undertaking, property and assets, both present and future.

The bank loans are secured by certain oil and gas properties and bear interest at ¾% in excess of the prevailing prime bank interest rate which was 9½% at December 31, 1973.

	1973	1972
Non-interest bearing demand notes		$3,500,000
7½% Convertible Subordinated Debentures		
Series A		255,000
Series B (including deferred interest of $144,530; 1972 — $107,030)	$ 644,530	607,030
5% - 7½% Convertible Subordinated Debenture	4,500,000	
Bank loans repayable in estimated monthly instalments of $30,000	1,793,661	490,000
Non interest bearing notes due $33,154 annually	265,230	298,384
	7,203,421	5,150,414
Less amounts due within one year	393,154	153,154
	$6,810,267	$4,997,260

4. Share capital

During the year the Company issued 299,947 common shares for a total consideration of $1,647,268 as follows:

	Number of shares	Amount
On acquisition of the shares of Red Deer Minerals Ltd. (Note 1)	195,405	$1,182,200
On conversion of Series A Debentures	62,042	254,993
For cash:		
On exercise of stock options	17,000	32,850
Under the treasury stock purchase plan	25,500	177,225
	299,947	$1,647,268

626,939 shares of the Company's common stock were reserved at December 31, 1973 as follows:

9,500 shares for options granted to officers, of which options on 6,000 shares are exercisable at $1.55 per share to December 31, 1975 and options on 3,500 shares are exercisable at $6.95 per share to December 31, 1978.

22,100 shares for options granted to employees, of which options on 8,000 shares are exercisable at $1.55 per share to December 31, 1975 and options on 14,100 shares are exercisable at $6.95 per share to December 31, 1978.

121,655 shares for the conversion of the 7½% Convertible Subordinated Debenture, Series B.

473,684 shares for the conversion of the 5% - 7½% Convertible Subordinated Debenture.

The Company has established a Treasury Stock Purchase Plan under which a maximum of 29,700 common shares have been approved for purchase and immediate resale by a Trustee to key employees at the average sale price of the Company's shares on the date of the transaction. During the year 25,500 shares were sold to the Trustee and resold to employees under the Plan for $6.95 per share. The balance of the purchase price still receivable at December 31, 1973 amounted to $170,333.

5. Income taxes

At December 31, 1973 the companies had drilling, exploration and property acquisition costs of approximately $6,200,000 available to be applied against future income.

6. Remuneration of directors and officers

During the year ended December 31, 1973 the aggregate remuneration of the eight directors in their capacity as directors was $5,900 and the remuneration of the five officers in their capacity as officers was $93,800. Four of the officers are directors.

7. Commitments

The Company has issued non interest bearing demand notes and letters of credit to the Government of Canada and others as security for the performance of work obligations by the Company in respect of normal exploration activity. At December 31, 1973, the aggregate of such obligations amounted to approximately $460,000.

AUDITORS' REPORT

To the Shareholders of
Canada Northwest Land Limited.

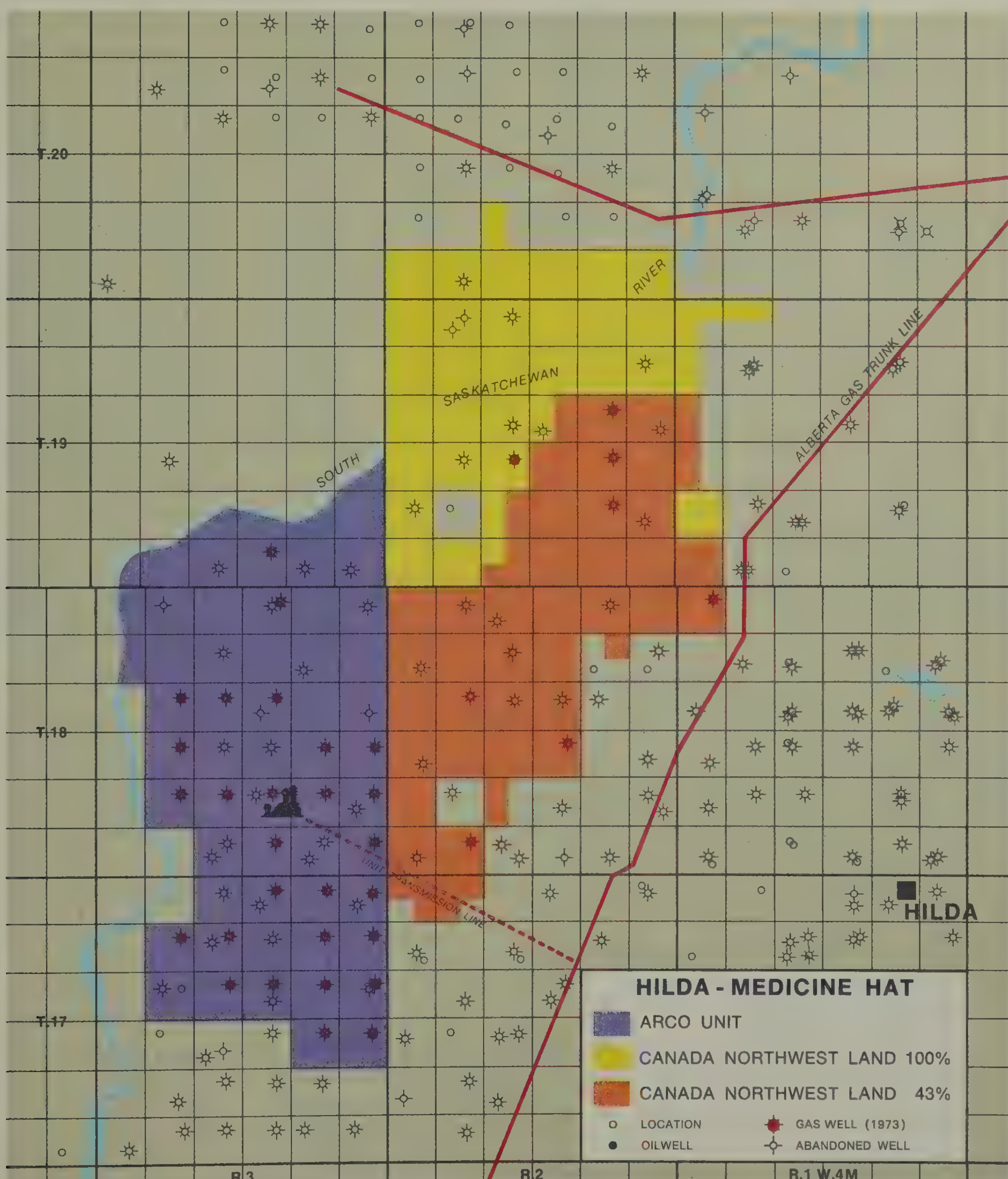
We have examined the consolidated balance sheet of Canada Northwest Land Limited and its subsidiaries as at December 31, 1973 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada.
February 15, 1974.

CLARKSON, GORDON & CO.
Chartered Accountants.

permit in 1973 so part of the Hilda reserves were released and placed under contract to TransCanada PipeLines Limited. This contract has a starting price of 26¢ per Mcf. escalating 1¢/Mcf. per year, with price redetermination to take place during 1974 and every two years thereafter. Gas reserves still under contract to Pan-Alberta are in the Tweedie area of central Alberta and at North Hilda. These contracts now provide for starting prices of 39¢ per Mcf. (1¢/Mcf. higher than the earlier contract), escalating 1¢/Mcf. per year. Pan-Alberta is planning to sell gas to California and Quebec gas utilities if permission can be gained. Subsequent to the year end, other operators were able to renegotiate older



export contracts with other pipelines to 56¢ per Mcf. This is a new high price level for Alberta gas and may be of some assistance to our Company in renegotiating prices with TransCanada PipeLines Limited this year. Our Company also has shut-in gas reserves estimated to contain 20 Bcf. at Westlock and Gambling Lake, both in Alberta, which are not yet committed.

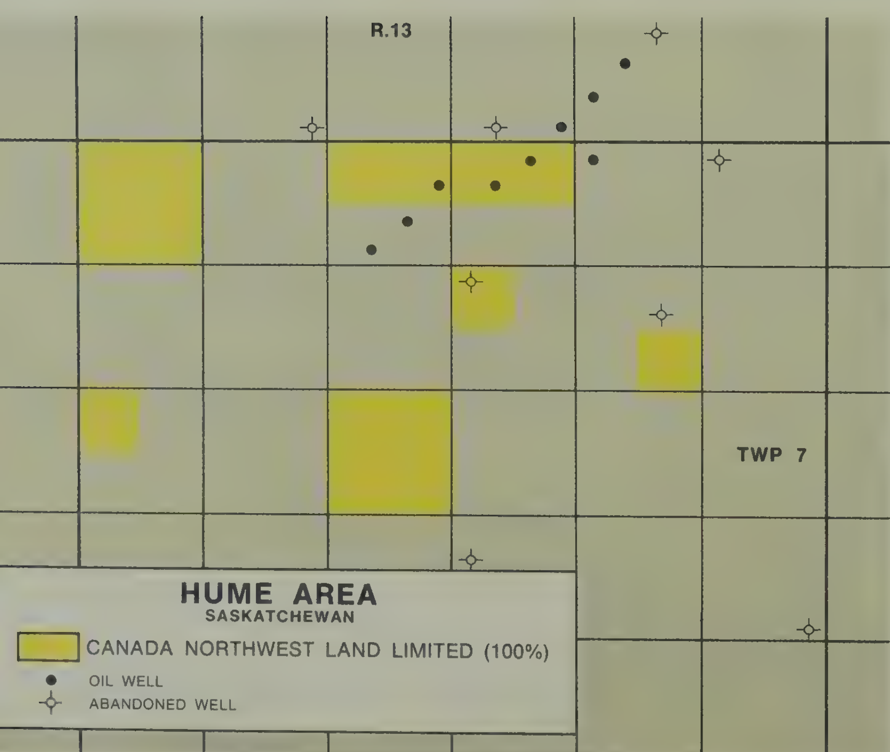
Drilling and Acquisition

During 1973 the Company participated in a drilling program of 53 holes, of which 42 were gas wells and five oil wells. In addition, we granted land options on four holes, all of which were dry. In 1974 our program will be larger as development continues on gas reserves, and as our foreign exploration program accelerates.

In the Hilda area in 1973, our Company acquired an additional 6,500 acres on the east side of the block and by merging 15,000 acres and seven wells into the Medicine Hat Hilda gas unit on the west side of the block, gained a 28% interest in 35,000 acres and 25 wells. This unit commenced production in January 1974. During last Fall, in the eastern portion of the block, our Company and partners drilled the first eight gas wells of a multi-well program to be completed in the spring of 1974. It is expected that this portion of the block will start production by mid 1974.

Our Company and partners drilled three wells on the Tweedie block, resulting in two gas wells and one dry hole. The group dropped approximately 5,700 acres and acquired 14,400 acres. At present four wells are producing gas being sold to the Athabasca Tar Sands plant at McMurray.

Six holes were drilled at Comrey, Westlock, Gambling Lake and Pendor, all in Alberta, resulting in four gas wells. Pendor and Comrey gas is being sold to Canadian Montana Gas Co., who are now paying 23½¢ per Mcf. In Saskatchewan, three oil wells and a dry hole were drilled at Hume and two oil wells at Lucky Hills. While both areas have additional locations, further drilling must wait for a clarification of Provincial government attitudes towards private industry.



RESERVES

The Company's net reserves of oil and gas at the end of 1973 have been estimated as follows:

	1973	1972
Oil (barrels)		
Proven	2,035,600	2,190,100
Probable	770,000	617,900
TOTAL	2,805,600	2,808,000
Gas (MMcf.)		
Proven	135,794	129,154
Probable	11,877	11,877
TOTAL	147,671	141,031

FINANCIAL

Gross revenues increased by 21% to $701,000 due to new production at Tweedie, Comrey and Hume, and to higher oil prices. The average price received for crude was $3.35 a barrel compared to $2.64 in 1972. Further increases will be reflected in 1974 accounts. Cash costs rose 25% due to increased interest charges and administrative costs while cash flow increased by 14% to $221,000. Higher non-cash charges because of amortization of the discount on a debenture sold during the year, offset the cash flow increase and the net loss for the year was $33,000 compared with $30,000 last year.

In 1973 the Company spent $2,962,000 on exploration and production facilities compared to $695,000 in the year previous. In addition, it retired $4,028,000 of various notes and production loans. Funds for these expenditures were derived from cash flow, the sale of various assets, including a minor interest in the Hilda gas reserves and of the Benson oil wells in Saskatchewan, the private sale of a $4.5 million convertible debenture (described in the notes to the financial statements), and bank loans. The 1974 program could cost $3,200,000 and funds for these expenditures are expected to be provided from production loans and cash flow.

OTHER

The year has been the most exciting one in the Company's recent history. Our Company has faced many challenges and it is a tribute to the hard work and devotion of our employees that we end up the year stronger than at the start.

We expect that challenges will continue to present themselves to us. Armed as we are with a capable staff and a steadily improving financial position, we are confident that we can turn them to the Company's best advantage so as to continue its growth and profitability trends.

Subsequent to the year end, Mr. Murray M. Sinclair of Toronto, resigned from the Board due to the pressure of other business. Mr. Sinclair has been a Director since January, 1969 and his presence will be missed on our Board. Mr. George G. Ross of Montreal, will be nominated to replace Mr. Sinclair, at the annual meeting.

H G Gammell

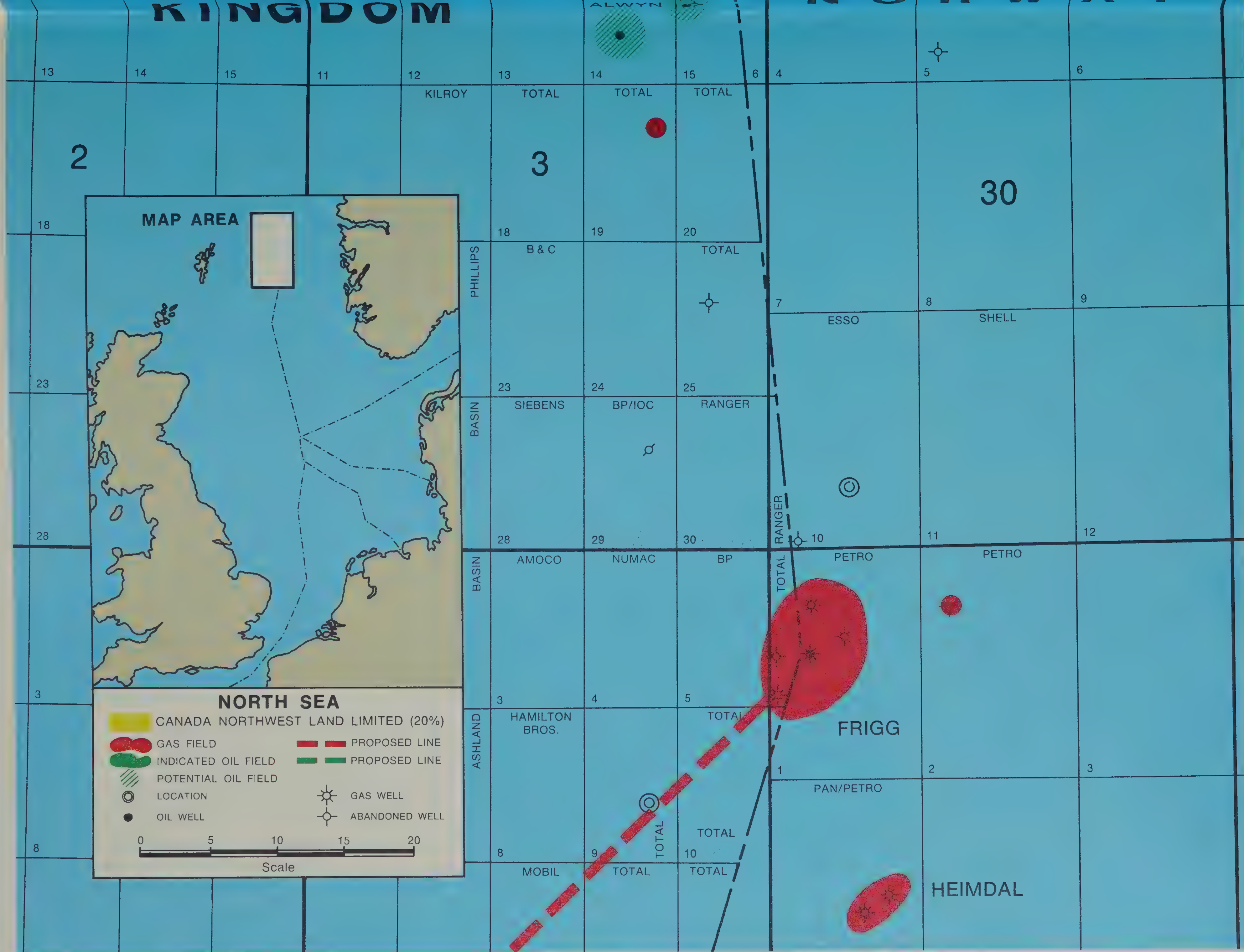
H. G. GAMMELL,

President.


MEDITERRANEAN SEA
AWARDS
APPLICATIONS
GAS FIELDS
OIL FIELDS
LOCATION
OILWELL
GAS WELL
ABANDONED WELL
0
100
200
Scale
FRANCE
SPAIN
MARSEILLE
GENOVA
ITALY
ROME
NAPOLI
YUGOSLAVIA
BULGARIA
GREECE
ADRIATIC SEA
TYRRHENIAN SEA
IONIAN SEA
AEGEAN SEA
BALEARIC ISLANDS
M E D I T E R R A N E A N S E A
SICILY
MALTA
ALGER
ALGERIA
TUNISIA
TRIPOLI
BENGASI
LIBYA
45°
40°
35°
0°
5°
10°
15°
20°
25°


CANADIAN ARCTIC ISLANDS
CANADA NORTHWEST LAND
PANARCTIC LAND
LOCATION OR DRILLING
OIL WELL
GAS WELL
ABANDONED WELL
0
50
100
Scale
144°
140°
136°
132°
128°
124°
120°
116°
78°
80°
76°
74°
72°
WILKINS STR.
BALLANTYNE STRAIT
MACKENZIE KING
PRINCE PATRICK
MOULD BAY
HAZEN STRAIT
FITZ WILLIAM STR.
KELLET STR.
SABINE PEN.
HELCA AND GRIPER BAY
MELVILLE
REA POINT
DUNDAS PEN.
M'CLURE STRAIT
SACHS HARBOUR
BANKS
VISCOUNT
MELVILLE

"THIS MAP MAY BE REMOVED FOR FUTURE REFERENCE"


KINGDOM
ALWYN
2
3
30
KILROY
TOTAL
TOTAL
TOTAL
B & C
TOTAL
PHILLIPS
SIEBENS
BP/IOC
RANGER
BASIN
ESSO
SHELL
AMOCO
NUMAC
BP
RANGER
TOTAL
PETRO
PETRO
BASIN
HAMILTON BROS.
TOTAL
ASHLAND
FRIGG
PAN/PETRO
TOTAL
TOTAL
MOBIL
TOTAL
TOTAL
HEIMDAL
MAP AREA
NORTH SEA
CANADA NORTHWEST LAND LIMITED (20%)
GAS FIELD
INDICATED OIL FIELD
POTENTIAL OIL FIELD
LOCATION
OIL WELL
PROPOSED LINE
PROPOSED LINE
GAS WELL
ABANDONED WELL
0 5 10 15 20
Scale

112°
108°
104°
100°
96°
92°
88°
84°
80°
76°
72°
68°
64°
80°
78°
76°
74°
72°
NANSEN SOUND
GREELY
FIORD
ELLESMERE
KANE BASIN
SVERDRUP CHANNEL
EUREKA
AXEL
HEIBERG
FOSHEIM
PEN.
PEARY
CHANNEL
ISACHSEN
PRINCE GUSTAF ADOLF SEA
ELLEF
RINGNES
AMUND
RINGNES
MASSEY SOUND
DANISH STR.
NORWEGIAN
BAY
BJORNE PEN.
CORNWALL
BELCHER
CHANNEL
ELLESMERE
GRINNEL PEN.
PENNY STR.
BYAM MARTIN CHANNEL
VANIER
JONES
SOUND
BATHHURST
AUSTIN CHANNEL
DEVON
WELLINGTON CHANNEL
CORNWALLIS
SOUND
BARROW
STRAIT
SOMERSET
PRINCE REGENT INLET
PEEL
SOUND
M'CLINTOCK CHANNEL
PRINCE
OF
WALES

SMITH GRANT MANN ALBERTA
Litho'd in Canada

CNW

CANADA NORTHWEST LAND LIMITED

AR52

CANADA NORTHWEST LAND LIMITED
Consolidated Statement of Source and Application of Funds
(Unaudited)

	SIX MONTHS ENDED June 30th, 1973	*June 30th, 1972
Source of Funds:		
Cash income from operations	$ 90,120	$ 76,055
Issue of common shares	1,376,050	847,945
Note payable		46,000
Bank loans	650,000	227,000
Refundable deposits	9,465	
Sale of property and equipment	35,528	82,508
	$2,161,163	$1,279,508
Application of Funds:		
Investment in shares of subsidiary	$1,191,162	$
Less working capital (deficiency) at date of acquisition	(85,502)	
	$1,276,664	
Expenditures re acquisition of subsidiary	21,670	12,867
Investment in Panarctic Oils Ltd.	400,779	
Conversion of Series A Debentures	161,000	125,000
Expenditures on property and equipment —		
Drilling and exploration	400,041	139,515
Acquisition costs and rentals	189,896	173,170
Production and other equipment	35,409	68,483
Non-interest bearing note	4,600	313,080
Financing costs	48,604	37,687
Refundable deposits		10,452
	$2,538,663	$ 880,254
Increase (decrease) in working capital	($ 377,500)	$ 399,254
Working capital (deficit) as at December 31st	425,715	(31,500)
Working capital as at June 30th	$ 48,215	$ 367,754

* Restated.

CANADA NORTHWEST LAND LIMITED
920, Three Calgary Place,
355 - 4th Avenue S.W., Calgary, Alberta T2P 0J1

Globe & Mail,
Report on Business,
140 King St. W.,
Toronto, Ontario.

INTERIM REPORT

CANADA NORTHWEST LAND LIMITED

CNW

Six Months Ending June 30, 1973

TO OUR SHAREHOLDERS:

By the end of the first six months of 1973 gross revenues and cash flow were both up 18% due primarily to better crude oil prices. During the first half, management had commenced preparing an issue of convertible debentures to be sold to the public which subsequently was cancelled due to poor market conditions. The costs had to be absorbed in the first half income statement rather than capitalized and as a result of this, as well as higher depletion charges, the net loss for the period rose to $57,000 from $8,000 last year. Our Company has adequate financial resources available to it to complete its foreseeable cash needs.

This summer, Panarctic Oils Ltd., of which our Company owns 4½%, will be drilling five holes itself and farmees will be drilling one hole on its properties in the Canadian Arctic Islands. The most interesting hole is a 17,000 foot test of deeper beds in the Drake Point gas field on Melville Island. In this hole, partners are contributing much of the cost of the deep drilling.

Since the start of the year our Company has participated in the drilling of seven holes in Alberta, three of which are gas wells. Two successes were drilled at Comrey in Twp. 1, Rge. 7 W4M and one at Gambling Lake in Twp. 50, Rge. 20 W4M. In the latter area our Company has interests in six sections varying from 43.75% to 50%. At the time of printing, the Company was drilling a development hole at Hilda in the Medicine Hat gas field and another hole was being drilled by others on a farmout in the North Lait area in southern Alberta.

During the remainder of the year our Company will be participating in development drilling programs at Hilda, Tweedie and Westlock to define reserves and producibility prior to the construction of gas gathering and compression facilities. As many as 20 wells could be completed before the year end. At Hilda, 6,400 acres of additional proven gas acreage has been acquired.

Our Company has substantial gas reserves under conditional contract to Pan-Alberta Gas Ltd. This company completed its application for gas export from Alberta to the Energy Resources Conservation Board in May and is now awaiting a decision. If the decision is favourable, Pan-Alberta will then apply to the National Energy Board for permission to export this gas from Canada. This decision may not be made before the end of September, 1973 as was required by Pan-Alberta's contract with our Company and, therefore, Pan-Alberta have requested a one year extension of the commitment period to September 1974. In return for tying up the gas for this additional period, Pan-Alberta have offered a 1¢ per Mcf. increase in price to 39¢ an Mcf. and 40¢ an Mcf. for the first two years of production — to start before November 1, 1975 — and a 1½¢ per Mcf. increase in the following three years. Our Company has not made a decision yet to extend the contract. An important consideration to management in making this decision is that the 45% increase in price over current contract prices in the area has the effect of increasing recoverable reserves owned by the Company by 25%. Undoubtedly the gas industry as a whole is affected in the same manner and therefore, security of supply for future Canadian needs appears well covered.

A 45% interest in Company-held permits on south Ellesmere Island in the Canadian Arctic has been farmed out to a major oil company who will maintain them for their remaining life. This is a similar type farmout to that made on the Lougheed Island permits last year. Exclusive of its interest in Panarctic, our Company now has no work obligations in the Arctic.

In the North Sea, the BP group has announced a location for their well on Block 3/8 immediately east of our group's Block 3/7. It is expected that the hole will be started in August. Burmah Petroleums Ltd. are also reported to be planning to drill a hole on their Block 3/3, a northeast offset to 3/7, during the second half. The continued intensive activity and rate of discovery in the northern part of the North Sea are greatly encouraging to industry and expectations are very high there. North of the 58° parallel in U.K. waters, seven new oil or gas discoveries or extensions appear to have been made this year. Seven holes are currently drilling and seventeen more holes are slated to be drilled over the next eighteen months.

Two holes are currently being drilled by major oil companies within ten miles of the Company's south Sicily permit.

Rising demand for gas and oil continued to exert upward pressure on prices in the first half. It is anticipated that this will continue and intensify in future. In 1972 the average price for crude oil sold by our Company was $2.64 a barrel. In 1973 the average price is expected to be close to $3.45 a barrel, if the most recent 40¢ a barrel increase holds.

H. G. GAMMELL,
President.

July 31, 1973.

CANADA NORTHWEST LAND LIMITED
Consolidated Statement of Income
(Unaudited)

	SIX MONTHS ENDED June 30th, 1973	SIX MONTHS ENDED June 30th, 1972
Revenue:		
Oil and gas sales and other operating revenue	$ 294,989	$ 250,227
Investments	2,507	2,097
	$ 297,496	$ 252,324
Deduct:		
Operating expense	$ 56,490	$ 58,837
General and administrative expense (net of management fees)	107,150	60,577
Mineral taxes	15,498	14,967
Interest	28,238	41,888
	$ 207,376	$ 176,269
Cash income from operations:	$ 90,120	$ 76,055
Deduct:		
Depletion, depreciation and amortization of financing charges	128,904	65,453
Deferred interest	18,750	18,750
	$ 147,654	$ 84,203
Net loss for the six months	$ 57,534	$ 8,148

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